

**DEPARTMENT OF MENTAL HEALTH,
RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
REPORT ON CONTRACT COMPLIANCE
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
ONE CAPITOL HILL
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
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Kent County Mental Health Center, Inc.
REPORT ON CONTRACT COMPLIANCE
Fiscal Years Ended June 30, 1998 and 1997

EXECUTIVE SUMMARY

The prior audit report for Kent County Mental Health Center, Inc., issued March 10, 1998 by the Bureau of Audits had five findings of which four were fully complied with.

Based on our contract compliance engagement for the fiscal years ended June 30, 1998 and 1997 it was determined that the Center's independent audit reports did not fully disclose revenues and expenditures as required by R.I. General Laws and MHRH Departmental Regulations.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

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April 13, 2000

Ms. A. Kathryn Power, Director
Department of Mental Health, Retardation and Hospitals
Barry Hall
600 New London Avenue
Cranston, RI 02920

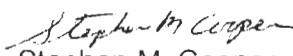
Dear Ms. Power:

We have completed an examination of the contracts between the Department of Mental Health, Retardation and Hospitals (MHRH) and Kent County Mental Health Center, Inc., for the fiscal years ended June 30, 1998 and 1997.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the General Laws requires the director of the department audited to respond in writing within sixty days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Robert L. Carl, Jr., Ph.D., Director, Department of Administration and to the Honorable Antonio J. Pires, Chairman of the House Finance Committee and to the Honorable J. Michael Lenihan, Chairman of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of MHRH and to the director and staff members of Kent County Mental Health Center, Inc., for the assistance, cooperation and courtesies extended to us during the course of this examination.

Sincerely,


Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pb

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

SCOPE AND PURPOSE

The purpose of this engagement was to determine compliance with your department's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the Matching Grant Contracts and with the terms and conditions contained within the Community Support, Residential and Acute Alternative Services Contracts as to:

- whether revenues and expenses were matchable or nonmatchable;
- total matchable income used as the basis for funding fiscal years 2000 and 1999;
- whether reported expenses were allowable and properly allocated;
- whether reported revenues were accurate; and
- any over or under funding on behalf of the Department of Mental Health, Retardation and Hospitals.

Our examination of the financial records included verification of revenues and expenses through testing procedures to the extent we deemed necessary in the circumstances. Occupancy requirements and resident contributions were examined for adherence to contract specifications. Client fund management was reviewed for conformance with applicable policies and guidelines.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

BACKGROUND

Section 40.1-8.5-6 of the General Laws of the State of Rhode Island authorizes the Director of the Department of Mental Health, Retardation and Hospitals (MHRH) to make grants to community mental health boards to provide mentally disabled children and adults services which shall include but not be limited to psychiatric, medical, nursing, psychological, social, rehabilitative and support services provided in the prevention, diagnosis, treatment and follow-up of mental disabilities, and in addition, may include those services designed to prevent mental disabilities or be of a consultative, informational or educational nature about mental disabilities. It is under this authorization that Kent County Mental Health Center, Inc., operates.

It is the intent of the law that an individual's eligibility to receive any public or private assistance be exhausted prior to the expenditure of state and local monies.

The Center's Administrative Offices are located at 300 Centerville Road Suite-301 S, Warwick, Rhode Island.

The Center is governed by a Board of Directors consisting of not more than 15 nor less than 12 individuals elected annually.



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
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December 31, 1998

Ms. A. Kathryn Power, Director
Department of Mental Health, Retardation and Hospitals
Barry Hall
600 New London Avenue
Cranston, RI 02920

Dear Ms. Power:

We have performed the procedures enumerated below, which were agreed to by the Department of Mental Health, Retardation and Hospitals (MHRH) and Kent County Mental Health Center, Inc. (Center), solely to assist the users in evaluating management's assertion about the Center's compliance with the Division of Integrated Mental Health's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the Matching Grant contracts and with the financial terms and conditions contained within the Community Support Residential and Acute Alternatives Services contracts during the fiscal years ended June 30, 1998 and 1997, included in the accompanying Report on Contract Compliance. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

For purposes of this engagement we tested compliance with the above mentioned specified requirements for determining matchable revenues, allowable costs, accuracy of reported activities and any excess funding on behalf of MHRH. Based on the application of the procedures referred to above, we became aware of an instance of noncompliance to provisions of MHRH's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers. This matter is discussed in the accompanying "Findings and Recommendations" section of this report.

Ms. A. Kathryn Power, Director
Page 2
December 31, 1998

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of MHRH and the Center and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pb

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR ENDED JUNE 30, 1998

	Community Support, Residential, and Acute Alternatives	General Outpatient Services	Other Programs	Title XIX Medicaid	Total
<u>Revenues</u>					
MHRH	\$ 712,864	61,575			774,439
DCYF			578,816		578,816
Other State Contracts	8,436		240,274		248,710
Title XIX Medicaid				4,473,652	4,473,652
Municipalities			123,005		123,005
Fund-Raising (Net)	1,872				1,872
Contributions	426				426
Patient Fees	9,796		63,771		73,567
Briggs School Fees			896,843		896,843
Resident Fees	66,824				66,824
Third Party Reimbursements	83,534		191,665		275,199
Gain on Disposal of Assets			24,203		24,203
Miscellaneous Income	6,234		129,360		135,594
Total Revenues	\$ 889,986	61,575	2,247,937	4,473,652	7,673,150
<u>Expenses</u>					
Personnel	3,106,531	31,982	2,178,685		5,317,198
Operating	1,478,941	14,360	1,117,460		2,610,761
Purchased Equipment	21,624		96,210		117,834
Total Expenses	\$ 4,607,096	46,342	3,392,355	0	8,045,793
<u>Other Financing Sources (Uses)</u>					
Interfund Transfer-Title XIX Medicaid	\$ 3,203,655		1,269,997	(4,473,652)	
Excess (Deficiency) of Revenues over Expenses	\$ (513,455)	15,233	125,579	0	(372,643)

See accompanying notes to financial information.

:SP-23A.wk1

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 KENT COUNTY MENTAL HEALTH CENTER, INC.
 STATEMENT OF REVENUES AND EXPENSES
 FISCAL YEAR ENDED JUNE 30, 1997

	Community Support, Residential, and Acute Alternatives	General Outpatient Services	Other Programs	Title XIX Medicaid	Total
<u>Revenues</u>					
MHRH	\$ 1,603,335	114,267			1,717,602
DCYF			719,785		719,785
Other State Contracts			222,436		222,436
Title XIX Medicaid				3,459,302	3,459,302
Municipalities			166,460		166,460
Fund-Raising (Net)	820		24		844
Contributions	90		2,794		2,884
Third Party Reimbursements	55,437		158,594		214,031
Patient Fees	5,188		57,853		63,041
Briggs School Fees			953,347		953,347
Resident Fees	66,749				66,749
Gain on Disposal of Assets			5,133		5,133
Miscellaneous Income	7,344		78,725		86,069
Total Revenues	\$ 1,738,963	114,267	2,365,151	3,459,302	7,677,683
<u>Expenses</u>					
Personnel	3,029,178	137,287	2,000,067		5,166,532
Operating	1,409,740	54,007	1,002,623		2,466,370
Purchased Equipment	67,012	19,539	200,173		286,724
Total Expenses	\$ 4,505,930	210,833	3,202,863	0	7,919,626
<u>Other Financing Sources (Uses)</u>					
Interfund Transfer-Title XIX Medicaid	2,426,176	62,012	971,114	(3,459,302)	
Excess (Deficiency) of Revenues over Expenses	\$ (340,791)	(34,554)	133,402	0	(241,943)

See accompanying notes to financial information.

:SP-23B

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 KENT COUNTY MENTAL HEALTH CENTER, INC.
 STATEMENT OF OPERATIONS - TITLE XIX PROGRAM
 FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

	<u>Fiscal Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
Beginning Balance	\$ <u>0</u>	<u>0</u>
Revenues Received Designated for Programs	4,473,652	3,459,302
<u>Revenues Applied:</u>		
Community Support and Related Services	3,203,655	2,426,176
General Adult Outpatient Services	0	62,012
Other Programs	<u>1,269,997</u>	<u>971,114</u>
Total Applied	<u>4,473,652</u>	<u>3,459,302</u>
<u>Ending Balance</u>	<u><u>0</u></u>	<u><u>0</u></u>

See accompanying notes to financial information.

;SP-23c.wk1

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 KENT COUNTY MENTAL HEALTH CENTER, INC.
 STATE MATCHING PROGRAM - GENERAL ADULT OUTPATIENT
 DETERMINATION OF OVER (UNDER) PAYMENT OF STATE MATCHING FUNDS
 FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

		Fiscal Year Ended June 30	
		1998	1997
<u>State Funds Allocated</u>			
Adult General Outpatient Services	\$	123,450	162,667
Community Support, Residential and Acute Alternatives		<u>123,450</u>	<u>162,667</u>
		<u>246,900</u>	<u>325,334</u>
Matchable Revenues - Fiscal Years Ended June 30, 1996 and 1995		<u>110,388</u>	<u>162,511</u>
<u>Determination of Over (Under) Payment of State Funds:</u>			
State Funds Allocated (Note 2)		246,900	325,334
Deduct lesser of :			
(a) Applicable Percentage of Matchable Revenues		246,900	325,334
(b) State Funds Allocated		246,900	325,334
Maximum Support - Lesser of A or B (Note 3)		<u>246,900</u>	<u>325,334</u>
Over (Under) Payment of State Matching Funds	\$	<u>0</u>	<u>0</u>

See accompanying notes to financial information.

:SP-23D

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

NOTES TO FINANCIAL INFORMATION

Note 1 - Significant Accounting Policies

Basis of Accounting:

The financial information is presented on the accrual basis of accounting which is in compliance with the Division of Integrated Mental Health Service's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers. Under this basis, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Note 2 - State Funds Allocated - Exhibit D

These amounts represent the total of the matching grants encumbered by the Department of MHRH for the operation of Kent County Mental Health Center, Inc.

Note 3 - Maximum Support - Exhibit D

State funds allocated are subject to the lesser of the following:

- A. 223.666% of the matchable revenue for fiscal year ended June 30, 1996 and 200.192% of the matchable revenue for the fiscal year ended June 30, 1995.
- B. The maximum state funding as determined above cannot exceed the dollar amount originally allocated for the respective fiscal year.

Note 4 - Other State Programs

These accounts represent funding from sources other than the Division of Integrated Mental Health Services.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
STATE MATCHING GRANT PROGRAM
SCHEDULE OF MATCHABLE AND NONMATCHABLE REVENUES
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

	Fiscal Year Ended June 30,	
	1998	1997
<u>State of Rhode Island</u>		
Adult General Outpatient Program	\$ 61,575	114,267
Community Support, Residential & Acute Alternatives	<u>602,476</u>	<u>1,440,824</u>
Total State Funds Allocated	664,051	1,555,091
<u>Matchable Revenues</u>		
Local Communities	378,999	440,429
Fund-Raising (Net)	1,932	1,918
Contributions	<u>10,841</u>	<u>10,273</u>
Total Matchable Revenues (For Fiscal Year Ending June 30, 2000 and 1999)	391,772	452,620
<u>Nonmatchable Revenues</u>		
Community Support, Residential & Acute Alternatives	110,388	162,511
Title XIX Program	4,473,652	3,459,302
Patient Fees	73,567	63,041
Resident Fees	66,824	66,749
Third Party Reimbursements	275,199	214,031
Other Programs	1,457,900	1,613,136
Miscellaneous	<u>159,797</u>	<u>91,202</u>
Total Nonmatchable Revenues	<u>6,617,327</u>	<u>5,669,972</u>
Total Revenues (Exhibits A and B, Respectively)	\$ <u><u>7,673,150</u></u>	<u><u>7,677,683</u></u>

:SP-23S1.wk1

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR AUDIT RECOMMENDATIONS - JUNE 30, 1996

Community Support and Related Services Program

1. If performance standards have, in fact, been deemed satisfactory by the department for the period under review, officials of MHRH should take into account the excess revenue of \$391,066 as available income for the Community Support services program when determining subsequent funding to Kent County Mental Health Center, Inc.

Complied.

Building Maintenance and Repair Restricted Account

2. MHRH officials should enforce their contract provision, as stated above, and ensure that the Center implements a restricted account for building maintenance and repair.

Complied.

Independent Audit Reports

3. MHRH officials should ensure that all future independent audit reports will, in fact, fully disclose financial data by program and only accept those reports that comply.

Did not fully comply. (See audit recommendation 1)

Outstanding Checks

4. To ensure accurate financial reporting and to further strengthen internal financial controls, MHRH officials should insure that a policy has been implemented ensuring outstanding checks are written off at six months.

Complied.

Representative Payee Program

5. To ensure accountability and proper administration of this Program MHRH should conduct periodic monitoring for compliance to all applicable guidelines, policies and procedures.

Complied.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

CURRENT YEARS FINDINGS AND RECOMMENDATIONS

Net Operations

Net operating results for the Center's programs for the fiscal years ended June 30, 1998 and 1997 are summarized below:

Revenue Excess (Deficiency) - Exhibits A and B

<u>Program</u>	<u>1998</u>	<u>1997</u>
Community Support, Residential And Acute Alternatives	\$ (513,455)	\$ (340,791)
Adult Outpatient Program (Matching)	15,233	(34,554)
Other Programs	<u>125,579</u>	<u>133,402</u>
Total Revenue	\$ <u>(372,643)</u>	\$ <u>(241,943)</u>

State Matching Program (Adult General Outpatient)

It was determined that there was no over or under payment of state matching funds during the period reviewed (See Exhibit D).

Matchable revenues were examined for fiscal years ended June 30, 1998 and 1997 and are summarized as follows:

	<u>1998</u>	<u>1997</u>
Municipal Revenues	\$ 378,999	\$ 440,429
Fund Raising (net)	1,932	1,918
Contributions	<u>10,841</u>	<u>10,273</u>
Total Matchable Revenues	\$ <u>391,772</u>	\$ <u>452,620</u>

Funds received in the fiscal years ended June 30, 1998 and 1997 will be the basis for determining state funds allocated by the Department of MHRH for the subsequent fiscal years ending June 30, 2000 and 1999.

Revenue Deficiencies

It is our understanding that each contract stands on its own and that any expenses in excess of the contracted amounts be absorbed by the provider.

During the period under review the following MHRH-Division of Integrated Mental Health Services contracts had revenue deficiencies (Exhibits A and B):

1998 – Community Support, Residential, and Acute Alternatives	\$ (513,455)
1997 – Community Support, Residential, and Acute Alternatives	\$ (340,791)
1997 – Adult General Outpatient	\$ (34,554)

A positive adjustment of \$483,152 was made to the Center's fiscal year 1999 Community Support, Residential, and Acute Alternatives Contract (CSS) by the MHRH-Division of Integrated Mental Health Services. This adjustment was to increase the state's share to the Center's fiscal year 1998 CSS contract, thereby reducing the above stated revenue deficiency of \$513,455 to \$30,303.

Independent Audit Reports

The Center's independent audit reports for the fiscal years ended June 30, 1998 and 1997 did not fully disclose revenues and expenditures for the General Adult Outpatient Program as required by the R.I. General Laws and MHRH Departmental Regulations as follows:

RIGL 40. 1-8.5-2 states"

"(1) 'Audit' means an annual financial accounting of a Center's financial situation, conducted by a certified public accountant within one hundred twenty (120) days from the end of the Center's fiscal year, and which includes, for the year reviewed and the immediate preceding year, full financial disclosure of the Center's assets, liabilities, fund balances, revenues and expenditures by program, and a verification of matchable funds for the year reviewed."

MHRH-Departmental Regulation 7.9.1 states:

“The Center’s audit shall include the full financial disclosure of all assets, liabilities, fund balances, revenues and expenditures by program with a minimum display of two years financial data in any audit report.”

Recommendation

1. MHRH officials should ensure that all future independent audit reports will, in fact, fully disclose financial data by program and only accept those reports that comply.

Affiliated Corporations

The Center formed several nonprofit corporations which provide services adjunctive to the Center's programs. A listing of the affiliates is as follows:

Kentco Holdings, Inc.

This corporation was formed to hold title to real estate for the benefit of the Center. The corporation holds title to property located at 70 Minnesota Avenue, Warwick, R.I. which is being used for day activity, vocational and other programs to benefit the chronically mentally ill. In June 1998, the corporation purchased, for \$210,000, a six-unit apartment building located at 77 West Warwick Avenue, West Warwick, R.I. These units are rented to the Center's clients and nonclients.

Kentco Properties, Inc.

This corporation was originally formed to apply for funding from the Department of Housing and Urban Development to construct a Section 8 low income housing apartment complex for the needy in the Center's catchment area. During November 1993 the corporation acquired, for \$170,000, two condominium units located at 3525 West Shore Road, Warwick, R.I., which were funded through Thresholds, Inc. These units are presently being used in the Center's residential program.

Fund for Mental Health, Inc.

This corporation is presently dormant. It was formed several years ago for fund raising purposes.